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The Attorney General today announced that she is triggering adjudicatory rate hearings against Commerce, Premier Insurance, and Safety Insurance. These insurers included excessive components in their rates, in violation of the statutory standard. Together, these three companies insure more than 1.5 million Massachusetts drivers (over 45% of the market). All three insurers filed for only a 6% rate decrease.

In the aggregate, these insurers' rate filings seek to overcharge Massachusetts drivers by over \$100,000,000.

The Attorney General noted a variety of glaring defects in the company rate requests, including:

- The use of inflated loss trends. The insurers claimed that losses were increasing when this was not the case. Indeed, losses are again down this year from previous estimates.
- Charging consumers for contingent commissions. Prior Commissioner decisions have barred insurers from passing the costs of contingent commissions along to drivers. Contingent commissions have been criticized as creating serious potential conflicts of interest and leading to anticompetitive effects such as the steering of business away from more cost effective carriers.
- Excess profit loads. The companies have loaded in profits substantially higher than any profit levels allowed in the last 25 years.

As part of the rate review process, the Attorney General also completed her initial review of rate requests by several companies with very small market shares in the Commonwealth. Among these were Fireman's Fund and State Farm, which together insure only approximately 1% of the drivers in Massachusetts.

The Attorney General has determined not to trigger a rate hearing against these companies. However, the filings of Fireman's Fund and State Farm include problematic components that warrant further administrative review:

--The filings adopt profit calculations previously rejected by the Commissioner to raise profits over the level accepted by the Commissioner in her prior role as rate-setter.

--The filings adopt unorthodox methods to project the property damage coverages upward, even though property damage losses have declined substantially in recent years. The method used by the Commissioner in her rate-setting decisions over the last five years would have resulted in reductions for these coverages.

--The expenses in the filings are significantly higher than the average expenses of companies in the market.

Although the Attorney General has only twenty days to review all state insurer rate filings under the new managed competition regulations, the Commissioner of Insurance has the right to call for a hearing any time before the effective date of April 1. The Attorney General has therefore urged the Commissioner to review these filings closely and, if necessary, require the companies to revise portions of their filings which do not comply with the statutory standard. Among other things, the Commissioner should closely review the proposed profit portions of the filings, test and validate the insurers' projections regarding property damage coverage losses, and obtain State Farm and Fireman's Fund expense information for the purpose of determining whether the high expenses in their filings are appropriate.¹

The Attorney General continues to review other insurer rate filings, and must make final determinations by December 17th on whether to trigger rate hearings. Insurers are invited to provide to the Attorney General any information that may assist in this process.

¹ The insurers did not calculate their own rate numbers, but instead adopted the insurer trade group's Advisory Filing for these purposes.